COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CINCINNATI BELL TELEPHONE COMPANY FOR AUTHORITY TO INCREASE AND ADJUST ITS RATES AND CHARGES AND TO CHANGE REGULATIONS AND PRACTICES AFFECTING SAME	)	CASE NO. 94-355

O R D E R

IT IS ORDERED that Cincinnati Bell Telephone Company ("Cincinnati Bell") shall file the original and 10 copies of the following information with the Commission no later than February 21, 1995, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total Kentucky company operations and Kentucky jurisdictional operations, separately.

All questions relate to Cincinnati Bell's January 13, 1995 response to the Commission's Order dated December 16, 1994.

1. The exhibits on pages 1 and 2 of 3 of response 2 indicate that capital leases increased $1,792,000 between the two periods. The interest rate in these capital leases is shown as 13 percent. Who are the lessors and why were these leases entered instead of using short-term debt, considering the high interest rate?

2. Page 1 of 3, response 9(a) reflects a decrease of $6.105 million in Carrier Billing and Collecting Revenue. Explain what caused this decline.

3. Are any of the inventory amounts in accounts 1220.xx shown in response to question 11 associated with nonregulated activities? If no, where are these inventories recorded? If yes, which accounts include nonregulated materials and supplies and what amounts are included in each account identified?

4. Provide a calculation of Kentucky Rate Base as shown in Attachment 2 of Coogan's testimony using average numbers instead of end-of-period. Explain why it would not be appropriate to use averages since revenues and expenses were not brought to end-of-period amounts. Also calculate the average capital during the period and calculate the return on capital using this average.

5. With regard to response 12, explain in detail the following increases on a total company basis and determine the portion of each allocable to Kentucky operations.

   a. The $52,511,000 increase in buildings.

   b. The $8,793,000 increase in furniture.

c. The $963,000 increase in art works.

d. The $12,954,000 increase in company communications equipment.

e. The $59,140,000 increase in general purpose computers.

f. The $33,069,000 increase in poles.

6. With regard to response 16, page 7 of 8, explain why directory revenues do not reflect any change from the prior year for the first 5 months of the test period.

7. With regard to response 22(a), were the institutional advertising expenditures in this response excluded from test period expenses? If no, why not? If yes, explain how the amounts excluded were calculated. Provide details of the advertising expenditures summarized in 22a, pages 1-6 or identify where they are shown.

8. Explain in detail the components of the $572,570.69 entry at line 46 of response 22(g).

9. Why is employee concession service not imputed as additional revenues to Cincinnati Bell's test period?

10. Response 24 does not include salaries and expenses for any individuals in the regulatory affairs department. Why were these individuals not shown?

11. The following questions relate to response 38:

a. Pages 42 and 43 relate to a bill to Cincinnati Bell for the repair of pagers. Was the test period amount adjusted for out of period charges? If no, why not? Were any of these charges incurred for pagers that only provide one-way service?

b. Explain the type of space rental covered by the invoices beginning at page 46. How was the monthly rental figure derived?

c. Was the AT&T Readyline expenditure included in test period cost of service? Explain the services covered by this invoice.

d. What types of services are covered by Norrell billing?

e. Explain services covered by the invoice on page 417 of 770. How are invoice prices determined?

f. Does Matrixx Marketing provide services to any other entities? If yes, what companies? If no, how are the per hour rates charged to Cincinnati Bell determined?

g. Explain how the $80 per hour rate was determined on the invoice at page 449 of 770.

h. The invoice at page 465 of 770 indicates charges for Interactive Video Distance Learning Research. To what geographical area did this charge relate? Were any of these charges allocated to Kentucky? If so, how much?

i. Invoices at 478 and 479 of 770 indicate research for Centrex. Were any of these charges allocated to Kentucky? If no, why not?

j. Explain "SERQUAL" invoices.

k. Explain the invoice at page 534 of 770. What are interest advances and how do they work?

l. How was the Management Fee of $764,685.79 shown in the invoice on page 536 of 770 determined? How was the Kentucky portion of the total invoice determined? Why did this charge increase from this amount in August to $1,245,278.42 in November?

m. Explain the "Post Retirement Contribution to VEBA" shown on page 567 of 770.

n. Explain the invoice at page 605 of 770.

o. In what accounts was the invoice at page 665 of 770 recorded? Were any charges allocated to the Kentucky jurisdiction? Is voice mail a detariffed service? If yes, were these charges included in test period cost of service? If no, how were they excluded?

p. Are any paging services provided to Cincinnati Bell by Cincinnati Bell Messaging considered one way paging? If yes, have any costs been allocated to the Kentucky jurisdiction?

12. Explain how charges to Cincinnati Bell from Cincinnati Bell, Inc. ("CBI") are allocated to Kentucky. Are any activities billed by CBI to Cincinnati Bell relating solely to the Ohio jurisdiction, being allocated to Kentucky? If yes, identify the activities and the amount allocated to Kentucky. If no, explain the controls which prevent this.

13. Response 56 states that no working capital requirement was used in the Ohio case. Was one proposed in the initial filing? If yes, how was it determined? If not included in the original

filing, why not? Would a working capital requirement have been included if the case was not stipulated in Ohio? If yes, how would it have been determined and how much would it have been?

14. To whom is the publication "Access Ability" distributed?

15. a. Were the costs of the advertising examples in response 57 allocated, at least in part, to the Kentucky jurisdiction? If no, why not?

b. Are advertising costs of CBI or other subsidiaries allocated to Cincinnati Bell and eventually, at least in part, to the Kentucky jurisdiction? Does Cincinnati Bell provide advertising in the form of bill inserts for nonregulated sister companies or other nonregulated or competitive companies? If yes, how is Cincinnati Bell compensated for this service and how are the revenues recorded?

c. Are any of the advertisements included in response 57 for services not regulated by this Commission?

16. In response 58, the company states that the largest component of operating expenses is "other." The total for other is $236,234,000. Provide a schedule of the individual 10 largest components. If depreciation is included in this amount, are the most recently approved rates reflected in the depreciation for the test year?

17. With regard to response 59, explain why an affirmative response would not be reasonable.

18. With regard to response 60, can demand in local exchange areas for a local telephone call be measured? If no, why not?

19. With regard to response 62, what is the level of demand of customers in the southern counties of the service area for Extended Area Service ("EAS")? If there is little demand, justify the increased local service rates.

20. Explain the "Usage" method. How can factors based on usage be determined for local exchange service?

21. Response 70 indicates that cost savings from retirement incentives were not reflected in the test period. Were payroll, benefits, and increases on these items for employees no longer employed also included in the test period?

22. Although inside wire activities are deregulated, is it not necessary to impute costs and revenues from both simple and complex inside wire service to set rates for tariffed intrastate services (FCC Docket 79-105 dated February 14, 1992)?

23. Separate the State, Local, and Other Operating taxes on Attachment 3 of Coogan's testimony into their component parts.

24. Provide the computation of the 1.559315 revenue conversion factor as shown on attachment 4 of Coogan's testimony.

25. Provide calculations of the effective rate for Federal Income and State Income taxes.

26. Are expenditures for such things as membership dues, employee awards, etc., included in the cost of service during the test period? If yes, why?

27. a. In which Part 32 Account are the CBI Management Fees shown in response 33(c) recorded?

b. For the test period, what percentage of these charges were allocated to Kentucky jurisdictional accounts and what were the dollar amounts allocated?

28. a. With regard to Response 17, page 5 of 8, "Total Company Regulated Activities," Depreciation expense on Telephone Plant In Service increased from $7,410,000 in January 1994 to $10,578,000 in February 1994. The levels of depreciation for the months of March through July are approximately $9,100,000. Explain the increase in February and the levels for March through July. What dollar amounts of depreciation were allocated to Kentucky jurisdictional accounts during the test period? Provide an exhibit detailing the determination of the depreciation expense allocated to Kentucky.

b. At page 6 of 8, explain the 30.58 percent and 54.98 percent increases in Executive and Planning Expenses respectively.

c. At page 7 of 8, explain the 12.09 percent increase in other General and Administrative expense.

29. A newspaper article in the January 26, 1995 edition of the Lexington Herald-Leader announced that Cincinnati Bell would eliminate 800 positions. When will these positions be eliminated? Are the expenses (wages, benefits, etc.) associated with these positions included in the test year? If yes, quantify the financial impact of the elimination of these positions on the test year and provide a revised expense level for the wages, benefits, etc., which were increased by Cincinnati Bell's wage and benefit adjustments.

30. Refer to the actuarial report provided in response 51.

a. Does the report cover employees of Cincinnati Bell, Inc. or Cincinnati Bell Telephone Company only?

b. Provide the actuarial report for employees not covered by bargaining agreements and specify whether it covers Cincinnati Bell, Inc. or Cincinnati Bell Telephone Company.

c. Explain why the actuarial assumptions used in the report differ from the actuarial assumptions in the 1993 Cincinnati Bell, Inc. Annual Report.

d. Explain how the actuarial report was used to develop the attachment provided in response to Item 51(e).

31. Refer to the attachment provided in response to Item 51(e).

a. Was a portion of the total Other Postretirement Employee Benefits ("OPEB") cost capitalized? If so, provide workpapers showing the total OPEB cost, the amount which was capitalized, the rate used to determine the amount capitalized, and basis for the capitalization rate used. If a portion of the OPEB cost was not capitalized, explain why not.

b. The attachment shows the total company OPEB expense for the test period for Cincinnati Bell Telephone Company as $17,039,220. According to the 1993 Cincinnati Bell, Inc. Annual Report, page 50, the 1993 OPEB cost for the entire organization was $19,840,000. Explain why this amount of OPEB expense was allocated to the telephone subsidiary.

32. Refer to the response to Item 54.

a. According to the 1993 Cincinnati Bell, Inc. Annual Report, page 51, the total effect of adopting Statement of Financial Accounting Standards 112 ("SFAS") for the entire organization was approximately $5 million. How was it determined that $3.7 million of this amount should be allocated to Cincinnati Bell Telephone Company?

b. As the $3.7 million for adoption of SFAS 112 is not a recurring expense, justify its inclusion in test year expenses. How much of the $3.7 million is included in test year expenses as a Kentucky intrastate regulated expense?

33. At page 10 of R. T. Findlay's testimony, he states that 90 percent of the access lines will have rate uniformity. What percentage of Cincinnati Bell's access lines currently have rate uniformity? If rate uniformity is a Cincinnati Bell goal, why are there different exchange rates in Kentucky?

34. Cincinnati Bell states that its southern exchanges will cause the costs associated with EAS and therefore should pay for its implementation. Would an optional area calling plan, offered to all exchanges, better apportion costs than the EAS plan?

35. Why do many of the factors used to allocate amounts to regulated activity on WPC4.1, supplied in response to Item 19 exceed 100 percent?

36. In Schedules PSCK No. 17-A1 and PSCK No. 17-A2 provided in response to Item 17, Cincinnati Bell reported a total company regulated loss of $996,000 (with $128,000 of the loss determined to be Kentucky jurisdictional) in Account 7160, Other Operating Gains

and Losses. Explain the nature of this loss and indicate whether it is expected to recur. If it is not expected to recur, justify its inclusion in the determination of revenue requirements.

37. The following questions are for Robert E. Sigmon:

a. Explain how Cincinnati Bell's recent Ohio case was different from traditional filings. Provide a copy of the stipulation among the parties and the final order issued by the Public Utilities Commission of Ohio ("PUCO") on May 5, 1994.

b. Provide the capital structure and cost associated with each component of the capital structure requested by Cincinnati Bell and authorized by the PUCO.

c. Provide a copy of any testimony filed before the PUCO on rate of return in the recent case.

38. The following questions are for Dr. James H. Vander Weide:

a. Provide copies of any articles discussing the cellular/multimedia phenomenon, its affects on share prices and growth expectations.

b. Why are publishing companies included in the group of risk comparable companies? Are they not subject to the "multimedia phenomenon"?

c. Determine a group of comparable telecommunication companies and perform a Discounted Cash Flow ("DCF") analysis on the group. Quantify and discuss any adjustments to the DCF results separately. Provide all supporting documentation.

39. Question 74 of the Commission's Order requested detailed analysis of the five alternatives considered by Cincinnati Bell prior to the submission of its case. Provide a full price-out of each of the five alternatives showing demand and any changes as a result of repression or stimulation, prices, and revenue impact on the current rate structure of the company.

40. Were changes to rates for other services considered? Specifically, were any alternatives considered which would mitigate the magnitude of the proposed rate changes in the 5B rate schedule?

41. If not previously provided as one of the five alternatives, provide a price-out maintaining the current optional EAS and Community Connection Service tariffs and incorporating optional measured and premium plans in which both the southern and northern exchanges could participate.

42. Under Cincinnati Bell's proposal, which exchanges will have toll-free calling to Cincinnati? Which exchanges will have toll-free from Cincinnati?

43. For each exchange, provide the rates by customer class of all optional EAS and Community Connection Service options.

44. If the Commission adopts the proposal flat-rate EAS for the southern exchanges, will the interexchange carriers be allowed to compete for intraLATA calls upon implementation of Administrative Case No. 323?[1]

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[1] Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme For Completion Of IntraLATA Calls By Interexchange Carriers, And WATS Jurisdictionality.

45. Will maintaining rate uniformity require recouping lost toll revenues from the northern exchanges from southern exchanges? Explain.

46. Discuss the pros and cons of making local service rates for Kentucky subscribers equal through a surcharge in all subscribers.

Done at Frankfort, Kentucky, this 31st day of January, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Don Mills

Executive Director